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SOVIET UNION

1. Armenian purge underlines Khrushchev's growing stature:

The purge of Armenian party boss G. A. Arutinov announced on 9 December appears to reflect the influence of N. S. Khrushchev, whose power has been increasing rapidly since he was appointed all-union party first secretary in September 1953. Arutinov was in 1951 the first Soviet official to criticize publicly Khrushchev's ideas on agricultural organization.

Khrushchev's public participation in the removal in late November of Leningrad party leader V. M. Andrianov, long considered a Malenkov associate, and his earlier failure to give Malenkov any credit for the new agricultural program suggest the development of rivalries within the framework of the USSR's collective leadership.

Besides assuming public supremacy in the important agricultural field, Khrushchev has apparently been able to gain an increasingly important role in top personnel appointments. Former Khrushchev associates who have been promoted recently include L. R. Korniets, new minister of procurement, and V. P. Mzhavanadze, first party secretary in Georgia.

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2. Soviet gold sales to Western Europe continue at a high rate:

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The British Foreign Office has informed the American embassy in London that recent sales of Soviet gold in the United Kingdom amount to the equivalent of approximately \$30,000,000.

Comment: Since mid-October, known Soviet gold exports to the United Kingdom, France, and Switzerland have totaled at least \$60,000,000. If continued at this rate, the total annual export of gold would be over three times the estimated Soviet and Satellite average in the past four years.

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In recent months the Soviet Union has expanded its imports of consumer goods from the West and has cut back its shipment of such important export commodities as grain and timber, probably using the export of precious metals as an alternative source of foreign exchange.

FAR EAST

3. Peiping spokesman prepared to "stay till spring" at Korean talks:

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Huang Hua, Chinese Communist spokesman at the Korean talks, told a senior Indian official in Korea on 9 December that he was "prepared to stay until spring" at these talks. Huang and the North Korean representative seemed "unable to understand" Ambassador Dean's rejection of the USSR as a neutral and "appeared incredulous" when the Indian stated that Dean's position would not change.

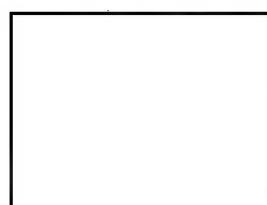
The Indian official believes that Huang's insistence on the USSR's "neutrality" is due in part to Peiping's sensitivity about appearing subordinate to the Russians at the Korean conference, which the Chinese consider to be their own concern.

Comment: Communist propaganda, although it describes the impasse in the Korean talks as "grave," suggests an intention to avoid taking the initiative in breaking off the talks.

Moscow and Peiping appear to have agreed from the start on the USSR's "neutral" status to give Moscow maximum maneuverability in the future.

4. Thimayya reports extensive military construction in Korea:

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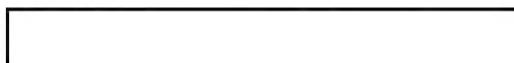


General Thimayya, Indian chairman of the Neutral Nations Repatriation Commission, believes that the Communists in Korea are working furiously on airfields, gun emplacements, and on an intricate system of tunnel defenses, according to Ambassador Dean.

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Thimayya, who is permitted to go north of the demilitarized zone, reiterates that the Communists can move men and a large amount of supplies through the tunnels without interference. Dean points out that the general, not being allowed south of the demilitarized zone, "constantly questions" whether full advantage of the armistice is being taken to build up South Korean defenses.

Comment: These firsthand observations reinforce other reports that the enemy is strengthening his forward positions, preparing underground storage space, and extending forward his line of communications.

Thimayya's statement underlines his increasingly sympathetic attitude toward the West.

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SOUTHEAST ASIA

6. Defense minister's policies may result in showdown in Indonesia:

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The American embassy in Djakarta reports that five of the Indonesian army's seven territorial commanders are unwilling to accept the pro-Communist defense minister's reorganization plan, which would curb their power. At the same time the government, by supporting the defense minister's activities and by favoring the Nationalist Party in making government appointments, has caused serious dissatisfaction among the small non-Communist parties represented in the cabinet. Thus for the first time there is a chance for the opposition to break the present coalition.

Defection of the government's moderate support would not necessarily bring about the cabinet's fall but would leave it wholly dependent on the support of the Communists, who could then dictate its policies. To accept this course, the embassy believes the government must risk forceful action from the military groups opposed to the defense minister.

Comment: The army commanders opposing the defense minister include those of West Java, where Djakarta is located, and Central Java. The commander in East Java is the only one fully supporting the government.

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NEAR EAST - AFRICA

7. British modify stand on control of Iranian oil consortium:

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Foreign Secretary Eden indicated at Bermuda that London is willing to push forward as quickly as possible with negotiations for a

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settlement of the Iranian oil dispute. He gave the impression that Britain would not insist on AIOC control of the Iranian oil industry or on a majority British share in any consortium established to market Iranian oil.

For domestic reasons, however, the British feel that their own analysis of the situation must precede any cabinet decision.

Comment: London has heretofore insisted that British companies must hold at least a 51-percent interest in any consortium.

Direct negotiations with Iran are unlikely for some time, pending solution of many complicated financial and legal problems involved. There are indications that AIOC representatives may be reluctant to adopt a position acceptable to Iran.

8. Comment on incidents in the Suez area:

The increase in minor incidents in the Suez Canal area and the reported British military retaliation are not expected to result in a breakdown of law and order. The Egyptian government, frustrated over the apparent unwillingness of Britain to make further concessions as well as over the delay of American economic aid, may be condoning some local expressions of anti-British sentiment.

Egyptian military leaders are aware that unrestrained terrorist activities endanger their regime and accordingly can be expected to counter this threat when necessary. For the time being they will probably continue to press for a negotiated solution of the Suez issue and for direct American aid.

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WESTERN EUROPE

9. Austria may request revision of state treaty draft:

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Foreign Minister Figl informed the American embassy in Vienna on 10 December that he intends to urge his government to request

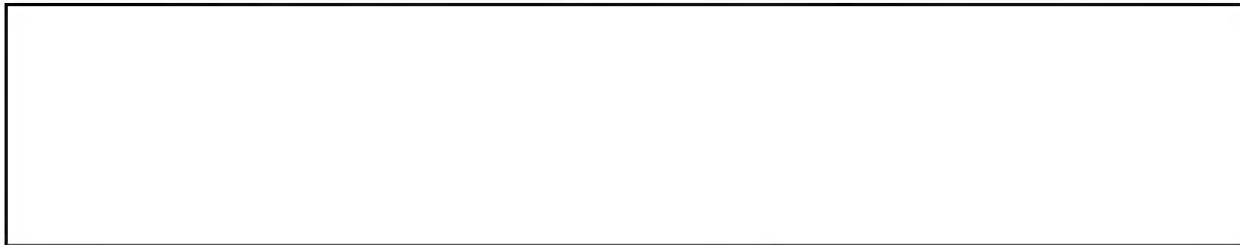
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formal consent to participate in the proposed four-power conference in Berlin. He "expects" any Austrian representative at the conference would make a strong plea for revision of Article 35 of the draft treaty.

Comment: The three Western powers have previously consented to Austrian participation in future treaty negotiations provided the Soviet Union concurs. Thus far Vienna has been unable to obtain a formal Soviet commitment to Austrian participation, although Soviet authorities in Austria have unofficially stated that this would be possible provided Austria "plays a good part."

An Austrian plea at the Berlin conference for revision of Article 35 would greatly assist Western efforts to revise the economic articles of the treaty. British and French support of these efforts is currently conditioned on Austrian initiative in urging revision.

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